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AGREEMENT AND PLAN OF MERGER, dated as of November 3, 1996 (this "Agreement"), among BRITISH TELECOMMUNICATIONS plc, a public limited company incorporated under the laws of England and Wales ("BT"), MCI COMMUNICATIONS CORPORATION, a Delaware corporation ("MCI"), and TADWORTH CORPORATION, a Delaware corporation and a wholly owned subsidiary of BT ("Merger Sub").

W I T N E S S E T H :

WHEREAS, the respective Boards of Directors of BT, MCI and Merger Sub have each determined that the Merger is in the best interests of their respective shareholders and have approved the Merger upon the terms and subject to the conditions set forth in this Agreement, whereby each issued and outstanding share of common stock, par value \$.10 per share, of MCI ("MCI Common Stock"), other than shares owned directly or indirectly by BT or by MCI, will be converted into the right to receive ordinary shares of BT represented by American Depositary Shares of BT ("BT ADSs"), each representing ten ordinary shares of 25p each of BT ("BT Ordinary Shares") and evidenced by American Depositary Receipts ("BT ADRs") and cash;

WHEREAS, in order to effectuate the foregoing, MCI, upon the terms and subject to the conditions of this Agreement and in accordance with the General Corporation Law of the State of Delaware (the "DGCL"), will merge with and into Merger Sub (the "Merger");

WHEREAS, BT, MCI and Merger Sub desire to make certain representations, warranties, covenants and agreements in connection with the Merger and also to prescribe various conditions to the Merger; and

WHEREAS, for United States Federal income tax purposes, it is intended that the Merger shall qualify as a reorganization under the provisions of Section 368(a) of the Internal Revenue Code of 1986, as amended (the "Code") and that this Agreement constitute a plan of reorganization within the meaning of Section 1.368-2(g) of the income tax regulations promulgated under the Code.

NOW, THEREFORE, in consideration of the foregoing and the respective representations, warranties, covenants and agreements set forth herein, and intending to be legally bound hereby, the parties hereto agree as follows:

ARTICLE I

THE MERGER

1.1. The Merger. Upon the terms and subject to the conditions set forth in this Agreement, and in accordance with the DGCL, MCI shall be merged with and into Merger Sub at the Effective Time. Following the Merger, the separate corporate existence of MCI shall cease and Merger Sub shall continue as the surviving corporation (the "Surviving Corporation").

1.2. Closing. The closing of the Merger (the "Closing") will take place on the fifth Business Day after satisfaction or waiver (subject to applicable law) of the conditions (excluding conditions that, by their terms, cannot be satisfied until the Closing Date) set forth in Article VI (the "Closing Date"), unless another time or date is agreed to in writing by the parties hereto. The Closing shall be held at the offices of Shearman & Sterling, 599 Lexington Avenue, New York, New York 10022, unless another place is agreed to in writing by the parties hereto.

1.3. Effective Time. As soon as practicable following the Closing, the parties shall (i) take all steps to obtain admission to the official list of the London Stock Exchange (the "LSE") of the BT Ordinary Shares to be issued in connection with the Merger and (if possible) simultaneously with such admission file a certificate of merger (the "Delaware Certificate of Merger") in such form as is required by and executed in accordance with the relevant provisions of the DGCL and (ii) make all other filings or recordings required under the DGCL. The Merger shall become effective at such time as the Delaware Certificate of Merger is duly filed with the Delaware Secretary of State or at such other time as BT and MCI shall agree in writing should be specified in the Delaware Certificate of Merger (the date and time the Merger becomes effective being the "Effective Time").

1.4. Effects of the Merger. At and after the Effective Time, the Merger will have the effects set forth in the DGCL. Without limiting the generality of the foregoing, and subject thereto, at the Effective Time all the property, rights, privileges, powers and franchises of MCI and Merger Sub shall be vested in the Surviving Corporation, and all debts, liabilities and duties of MCI and Merger Sub shall become the debts, liabilities and duties of the Surviving Corporation.

1.5. Certificate of Incorporation. The certificate of incorporation of Merger Sub, as in effect immediately prior to the Effective Time, shall be the certificate of incorporation of the Surviving Corporation (except that Article I of the Certificate of Incorporation shall be amended as of the Effective Time to read as follows: "The name of the Corporation is MCI Communications Corporation"), until thereafter changed or amended as provided therein or by applicable law.

1.6. By-Laws. The by-laws of Merger Sub as in effect at the Effective Time shall be the by-laws of the Surviving Corporation until thereafter changed or amended as provided therein or by applicable law.

1.7. Officers of Surviving Corporation. The officers of MCI as of the Effective Time shall be the officers of the Surviving Corporation, until the earlier of their resignation or removal or otherwise ceasing to be an officer or until their respective successors are duly elected and qualified, as the case may be, and BT and the Surviving Corporation shall use all reasonable efforts to cause such officers to be elected as of the Effective Time.

1.8. Effect on Capital Stock. As of the Effective Time, by virtue of the Merger and without any action on the part of the holders of (i) any shares of MCI Common Stock, (ii) any shares of Class A Common Stock, par value \$.10 per share, of MCI ("MCI Class A Common Stock") or (iii) any shares of common stock, par value \$.01 per share, of Merger Sub:

(a) Cancellation of Treasury Stock and BT-Owned Stock. Each share of MCI Common Stock that is owned by MCI as treasury stock and each share of MCI Common Stock and each share of MCI Class A Common Stock that are owned by BT or any wholly owned Subsidiary of BT (together, in each case, with the associated Right) shall automatically be cancelled and retired and shall cease to exist and no stock of BT or (subject to Section 1.8(c)) other consideration shall be delivered in exchange therefor.

(b) Conversion of MCI Common Stock. Subject to Section 2.5 and Section 2.14, each issued and outstanding share of MCI Common Stock (other than shares to be cancelled in accordance with Section 1.8(a)) together with the associated Right shall be converted into the right to receive 0.54 BT ADSs (the "Stock Consideration") and \$6.00 in cash (the "Cash Consideration" and, collectively with the Stock Consideration, the "Merger Consideration"). As of the Effective Time, all such shares of MCI Common Stock (and the associated Rights) shall no longer be outstanding and shall automatically be cancelled and retired and shall cease to exist, and each holder of a certificate representing any such shares of MCI Common Stock (and the associated Rights) shall cease to have any rights with respect thereto, except the right to receive, upon surrender of such certificate in accordance with Section 2.2, the Merger Consideration with respect to the shares of MCI Common Stock formerly represented thereby to which such holder is entitled pursuant to this Section 1.8 and a check in the amount of any cash in lieu of fractional BT ADSs to which such holder is entitled pursuant to Section 2.5(b), without interest.

(c) Allotment of BT Ordinary Shares. In consideration of and in exchange for the issuance to BT by the Surviving Corporation of such number of shares of common stock of the Surviving Corporation as BT shall specify, BT shall (i) allot and

issue the number of BT Ordinary Shares represented by BT ADSs to be issued in the Merger to the ADR Depositary on behalf of the holders of MCI Common Stock entitled thereto for the purposes of giving effect to the conversion and exchange referred to in this Article I, (ii) cause the Surviving Corporation to pay cash in the amount required to be exchanged for shares of MCI Common Stock in the Merger pursuant to this Section 1.8 and any cash in lieu of fractional BT ADSs and (iii) agree to the cancellation of the MCI Class A Common Stock. Holders of BT ADSs to be issued in the Merger shall not be entitled to receive the forecast dividend, whether paid as an interim or final dividend, of 11.95p per BT Ordinary Share (the "Second Dividend") to be recommended for payment in respect of its financial year ending March 31, 1997 and BT shall in respect of the Second Dividend notify the LSE to mark the BT Ordinary Shares "ex-dividend" in the Stock Exchange Daily Official List on a date prior to the Effective Time. If the Effective Time shall be prior to March 31, 1998, such holders shall be entitled to receive the interim dividend payable by BT on the BT Ordinary Shares for the year ending March 31, 1998 (normally paid in February of each year) which shall be payable on the later of (i) the payment date for such dividend or (ii) at the Effective Time to the ADR Depositary concurrently with payment of the Merger Consideration pursuant to Section 2.1. Holders of BT ADSs to be issued in the Merger shall not be entitled to receive the special dividend or dividends payable on each BT Ordinary Share referred to in Section 4.2(b)(i)(C).

ARTICLE II

EXCHANGE OF CERTIFICATES

2.1. Exchange Fund. At the Effective Time, (a) BT shall issue to and deposit with BT's United States depositary (the "ADR Depositary"), for the benefit of the holders of shares of MCI Common Stock converted in accordance with Article I, BT Ordinary Shares in an amount sufficient to permit the ADR Depositary to issue BT ADRs representing the number of BT ADSs issuable pursuant to Section 1.8 and (b) the Surviving Corporation shall deposit with such bank or trust company as may be designated by BT and be reasonably acceptable to MCI (the "Exchange Agent") cash in the amount required to be exchanged for shares of MCI Common Stock in the Merger pursuant to Section 1.8 and any cash in lieu of fractional BT ADSs. BT shall cause the ADR Depositary to issue upon the instructions of the Exchange Agent, for the benefit of the holders of shares of MCI Common Stock converted in accordance with Article I, through the Exchange Agent, BT ADRs representing the number of BT ADSs issuable pursuant to Section 1.8, as soon as practicable after the Effective Time, and the Exchange Agent shall deliver cash contemplated to be paid pursuant to Section 1.8 and, from time to time as required to make payments in lieu of fractional BT ADSs pursuant to Section 2.5(b) (such cash and BT ADRs representing BT ADSs, together with any dividends or distributions with respect thereto, being hereinafter

referred to as the "Exchange Fund") in exchange for outstanding shares of MCI Common Stock.

2.2. Exchange Procedures. As soon as reasonably practicable after the Effective Time, the Exchange Agent shall mail to each holder of record of a certificate or certificates which immediately prior to the Effective Time represented outstanding shares of MCI Common Stock (and the associated Rights) (the "Certificates") that were converted into the right to receive BT ADSs pursuant to Section 1.8(b), (i) a letter of transmittal (which shall specify that delivery shall be effected, and risk of loss and title to the Certificates shall pass, only upon delivery of the Certificates to the Exchange Agent, and which shall be in such form and have such other provisions as BT may reasonably specify) and (ii) instructions for use in effecting the surrender of the Certificates in exchange for BT ADRs. Upon surrender of a Certificate for cancellation to the Exchange Agent together with such letter of transmittal, duly executed and completed in accordance with the instructions thereto, and such other documents as may reasonably be required by the Exchange Agent, the holder of such Certificate shall be entitled to receive in exchange therefor (A) one or more BT ADRs representing, in the aggregate, the whole number of BT ADSs that such holder has the right to receive pursuant to the provisions of Article I (after taking into account all shares of MCI Common Stock then held by such holder) and (B) a check in the amount equal to the cash that such holder has the right to receive pursuant to the provisions of Article I and this Article II, including cash in lieu of any fractional BT ADSs pursuant to Section 2.5, and the Certificate so surrendered shall forthwith be cancelled. In the event of a transfer of ownership of MCI Common Stock that is not registered in the transfer records of MCI, one or more BT ADRs evidencing, in the aggregate, the proper number of BT ADSs may be issued, a check in the proper amount of cash may be paid pursuant to Section 1.8 and cash in lieu of any fractional BT ADSs and any dividends or other distributions to which such holder is entitled pursuant to Section 2.3 may be paid to a Person other than the Person in whose name the Certificate so surrendered is registered if the Certificate representing such MCI Common Stock is presented to the Exchange Agent, accompanied by all documents required to evidence and effect such transfer and evidence that any applicable stock transfer taxes have been paid. Until surrendered as contemplated by this Article II, each Certificate shall be deemed at any time after the Effective Time to represent only the right to receive upon surrender the Merger Consideration with respect to the shares of MCI Common Stock formerly represented thereby to which such holder is entitled pursuant to Section 1.8(b), cash in lieu of any fractional BT ADSs to which such holder is entitled pursuant to Section 2.5 and any dividends or other distributions to which such holder is entitled pursuant to Section 2.3. No interest will be paid or will accrue on any cash payable in lieu of any fractional BT ADSs payable pursuant to Section 2.5 or any dividends or other distributions payable pursuant to Section 2.3.

2.3. Distributions with Respect to Unexchanged Shares. No dividends or other distributions declared or made with respect to BT Ordinary Shares with a record date after the Effective Time shall be paid to the holder of any unsurrendered Certificate with respect to the BT ADSs that such holder would be entitled to receive upon surrender of such

Certificate and no cash payment in lieu of fractional BT ADSs shall be paid to any such holder pursuant to Section 2.5 until such holder shall surrender such Certificate in accordance with Section 2.2. Subject to the effect of applicable laws, following surrender of any such Certificate, there shall be paid to the holder of BT ADSs issued in exchange therefor, without interest, (a) promptly after the time of such surrender, the amount of any cash payable in lieu of fractional BT ADSs to which such holder is entitled pursuant to Section 2.5 and the amount of dividends or other distributions with a record date after the Effective Time theretofore paid with respect to such whole BT ADSs, and (b) at the appropriate payment date, the amount of dividends or other distributions with a record date after the Effective Time but prior to such surrender and a payment date subsequent to such surrender payable with respect to such BT ADSs.

2.4. No Further Ownership Rights in MCI Common Stock. All BT ADRs (and the BT ADSs represented by such BT ADRs) issued and cash paid upon conversion of shares of MCI Common Stock in accordance with the terms of Article I and this Article II (including any cash paid pursuant to Sections 2.3 or 2.5) shall be deemed to have been issued or paid in full satisfaction of all rights pertaining to the shares of MCI Common Stock (and the Rights associated therewith).

2.5. No Fractional BT ADSs. (a) No certificates or scrip or BT ADRs representing fractional BT ADSs shall be issued upon the surrender for exchange of Certificates and such fractional share interests will not entitle the owner thereof to vote or to have any rights of a shareholder of BT or a holder of BT ADRs or BT ADSs.

(b) Notwithstanding any other provision of this Agreement, each holder of shares of MCI Common Stock exchanged pursuant to the Merger who would otherwise have been entitled to receive a fraction of a BT ADS (after taking into account all Certificates delivered by such holder) shall receive, in lieu thereof, cash (without interest) in an amount equal to the product of (i) such fractional part of a BT ADS multiplied by (ii) the last sales price per BT ADS on the New York Stock Exchange, Inc. (the "NYSE") Composite Transaction Tape for the Closing Date. As promptly as practicable after the determination of the amount of cash, if any, to be paid to holders of fractional interests, the Exchange Agent shall so notify BT, and BT shall cause the Surviving Corporation to deposit such amount with the Exchange Agent and shall cause the Exchange Agent to forward payments to such holders of fractional interests subject to and in accordance with the terms hereof.

2.6. Termination of Exchange Fund. Any portion of the Exchange Fund which remains undistributed to the holders of Certificates for twelve months after the Effective Time shall be delivered to the Surviving Corporation or otherwise on the instruction of the Surviving Corporation, and any holders of the Certificates who have not theretofore complied with this Article II shall thereafter look only to the Surviving Corporation or BT for the Merger Consideration with respect to the shares of MCI Common Stock formerly represented thereby to which such holders are entitled pursuant to Section 2.2, any cash in lieu of fractional BT ADSs to which such holders are entitled

pursuant to Section 2.5 and any dividends or distributions with respect to BT ADSs to which such holders are entitled pursuant to Section 2.3. Any such former portion of the Exchange Fund remaining unclaimed by holders of shares of MCI Common Stock five years after the Effective Time (or such earlier date immediately prior to such time as such amounts would otherwise escheat to or become property of any Governmental Entity) shall, to the extent permitted by applicable law, become the property of the Surviving Corporation free and clear of any claims or interest of any Person previously entitled thereto.

2.7. No Liability. None of BT, Merger Sub, MCI, the ADR Depositary, the Surviving Corporation or the Exchange Agent shall be liable to any Person in respect of any BT ADRs (or dividends or distributions with respect to BT ADSs) or cash from the Exchange Fund delivered to a public official pursuant to any applicable abandoned property, escheat or similar law.

2.8. Investment of Exchange Fund. The Exchange Agent shall invest any cash included in the Exchange Fund as directed by the Surviving Corporation on a daily basis. Any interest and other income resulting from such investments shall promptly be paid to the Surviving Corporation.

2.9. Lost Certificates. If any Certificate shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the Person claiming such Certificate to be lost, stolen or destroyed and, if required by BT, the posting by such Person of a bond in such reasonable amount as BT may direct as indemnity against any claim that may be made against it with respect to such Certificate, the Exchange Agent will deliver in exchange for such lost, stolen or destroyed Certificate the applicable Merger Consideration with respect to the shares of MCI Common Stock formerly represented thereby, any cash in lieu of fractional BT ADSs, and unpaid dividends and distributions on BT ADSs deliverable in respect thereof, pursuant to this Agreement.

2.10. Withholding Rights. Each of the Surviving Corporation and BT shall be entitled to deduct and withhold from the consideration otherwise payable pursuant to this Agreement to any holder of shares of MCI Common Stock such amounts as it is required to deduct and withhold with respect to the making of such payment under the Code, or any provision of state, local or foreign tax law, including the tax laws of the United Kingdom. To the extent that amounts are so withheld by the Surviving Corporation or BT, as the case may be, such withheld amounts shall be treated for all purposes of this Agreement as having been paid to the holder of the shares of MCI Common Stock in respect of which such deduction and withholding was made by the Surviving Corporation or BT, as the case may be.

2.11. Further Assurances. At and after the Effective Time, the officers and directors of the Surviving Corporation will be authorized to execute and deliver, in the name and on behalf of MCI or Merger Sub, any deeds, bills of sale, assignments or assurances and to take and do, in the name and on behalf of MCI or Merger Sub, any other actions and

things to vest, perfect or confirm of record or otherwise in the Surviving Corporation any and all right, title and interest in, to and under any of the rights, properties or assets acquired or to be acquired by the Surviving Corporation as a result of, or in connection with, the Merger.

2.12. Stock Transfer Books. At the close of business, New York City time, on the day the Effective Time occurs, the stock transfer books of MCI shall be closed and there shall be no further registration of transfers of shares of MCI Common Stock thereafter on the records of MCI. From and after the Effective Time, the holders of Certificates shall cease to have any rights with respect to such shares of MCI Common Stock formerly represented thereby, except as otherwise provided herein or by law. On or after the Effective Time, any Certificates presented to the Exchange Agent or BT for any reason shall be converted into the Merger Consideration with respect to the shares of MCI Common Stock formerly represented thereby, any cash in lieu of fractional BT ADSs to which the holders thereof are entitled pursuant to Section 2.5 and any dividends or other distributions to which the holders thereof are entitled pursuant to Section 2.3.

2.13. Restricted BT ADRs. Notwithstanding anything contained in Article I or this Article II, stockholders of MCI who are affiliates ("Rule 145 Affiliates") of MCI as of the Effective Time within the meaning of Rule 145 under the Securities Act of 1933, as amended (the "Securities Act"), will receive restricted BT ADRs ("Restricted BT ADRs") pursuant to this Section 2.13 and all references to BT ADRs to be received pursuant to Articles I and II by Rule 145 Affiliates shall be deemed to be references to Restricted BT ADRs.

2.14. Shares of Dissenting Stockholders. Notwithstanding anything in this Agreement to the contrary, any shares of MCI Common Stock that are outstanding immediately prior to the Effective Time and that are held by stockholders who shall not have voted in favor of the Merger or consented thereto in writing and who shall have demanded properly in writing appraisal for such shares in accordance with Section 262 of the DGCL (collectively, the "Dissenting Shares") shall not be converted into or represent the right to receive the Merger Consideration. Such stockholders shall be entitled to receive payment of the appraised value of such shares of MCI Common Stock held by them in accordance with the provisions of Section 262 of the DGCL, except that all Dissenting Shares held by stockholders who shall have failed to perfect or who effectively shall have withdrawn or lost their rights to appraisal of such shares of MCI Common Stock under such Section 262 shall thereupon be deemed to have been converted into and to have become exchangeable, as of the Effective Time, for the right to receive, without any interest thereon, the Merger Consideration. MCI shall give BT (i) prompt notice of any notice or demands for appraisal or payment for shares of MCI Common Stock received by MCI and (ii) the opportunity to participate in and direct all negotiations and proceedings with respect to any such demands or notices. MCI shall not, without the prior written consent of BT, make any payment with respect to, or settle, offer to settle or otherwise negotiate, any such demands.

ARTICLE III

REPRESENTATIONS AND WARRANTIES

3.1. Representations and Warranties of MCI. Except as set forth in the MCI Disclosure Schedule delivered by MCI to BT at or prior to the execution of this Agreement (the "MCI Disclosure Schedule") (each section of which qualifies the correspondingly numbered representation and warranty or covenant to the extent specified therein), MCI represents and warrants to BT as follows:

(a) Organization, Standing and Power. Each of MCI and each of its Subsidiaries is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation or organization, has all requisite power and authority to own, lease and operate its properties and to carry on its business as now being conducted and is duly qualified and in good standing to do business in each jurisdiction in which the nature of its business or the ownership or leasing of its properties makes such qualification necessary other than in such jurisdictions where the failure so to qualify would not, either individually or in the aggregate, have a Material Adverse Effect on MCI. The copies of the certificate of incorporation and by-laws of MCI which were previously furnished to BT are true, complete and correct copies of such documents as in effect on the date of this Agreement.

(b) Capital Structure.

(i) As of September 30, 1996, the authorized capital stock of MCI consists of (A) 2,000,000,000 shares of MCI Common Stock, of which 548,903,285 shares are outstanding, (B) 500,000,000 shares of MCI Class A Common Stock, of which 135,998,932 shares are outstanding and (C) 50,000,000 shares of designated preferred stock, of which 10,000,000 shares of Series E Junior Participating Preferred Stock have been designated and reserved for issuance upon exercise of the rights (the "Rights") distributed to the holders of MCI Common Stock pursuant to the Rights Agreement dated as of September 30, 1994 between MCI and Mellon Bank, N.A., as rights agent (the "Rights Agreement"). Since September 30, 1996 to the date of this Agreement, there have been no issuances of shares of the capital stock of MCI or any other securities of MCI other than issuances of shares pursuant to options or rights outstanding as of September 30, 1996 under the MCI Benefit Plans. All issued and outstanding shares of the capital stock of MCI are duly authorized, validly issued, fully paid and nonassessable, and no class of capital stock (other than MCI Class A Common Stock) is entitled to preemptive rights. There were outstanding as of September 30, 1996 no options, warrants

or other rights to acquire capital stock from MCI other than (x) options representing in the aggregate the right to purchase 78,036,440 shares of MCI Common Stock under the 1989 MCI Stock Option Plan, the MCI 1988 Directors' Stock Option Plan and the MCI 1979 Stock Option Plan (collectively, the "MCI Stock Option Plans") and (y) rights to purchase an aggregate of 19,068,621 shares of MCI Common Stock under the ESPP. No options or warrants or other rights to acquire capital stock from MCI have been issued or granted since September 30, 1996 to the date of this Agreement.

(ii) As of the date of this Agreement, no bonds, debentures, notes or other indebtedness of MCI having the right to vote on any matters on which stockholders may vote ("MCI Voting Debt") are issued or outstanding.

(iii) Except as otherwise set forth in this Section 3.1(b), as of the date of this Agreement, there are no securities, options, warrants, calls, rights, commitments, agreements, arrangements or undertakings of any kind to which MCI or any of its Subsidiaries is a party or by which any of them is bound obligating MCI or any of its Subsidiaries to issue, deliver or sell, or cause to be issued, delivered or sold, additional shares of capital stock or other voting securities of MCI or any of its Subsidiaries or obligating MCI or any of its Subsidiaries to issue, grant, extend or enter into any such security, option, warrant, call, right, commitment, agreement, arrangement or undertaking. As of the date of this Agreement, there are no outstanding obligations of MCI or any of its Subsidiaries to repurchase, redeem or otherwise acquire any shares of capital stock of MCI or any of its Subsidiaries.

(c) Authority: No Conflicts.

(i) MCI has all requisite corporate power and authority to enter into this Agreement and, subject to the adoption of this Agreement by the requisite vote of the holders of MCI Common Stock and the requisite vote of the holders of MCI Class A Common Stock, voting separately as a class, to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of MCI, subject in the case of the consummation of the Merger to the adoption of this Agreement by the stockholders of MCI. This Agreement has been duly executed and delivered by MCI and constitutes a valid and binding agreement of MCI, enforceable against it in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium and similar laws relating to or affecting creditors generally, by general equity principles (regardless of whether such enforceability is

considered in a proceeding in equity or at law) or by an implied covenant of good faith and fair dealing.

(ii) The execution and delivery of this Agreement does not or will not, as the case may be, and the consummation of the transactions contemplated hereby will not, conflict with, or result in any violation of, or constitute a default (with or without notice or lapse of time, or both) under, or give rise to a right of termination, amendment, cancellation or acceleration of any obligation or the loss of a material benefit under, or the creation of a lien, pledge, security interest, charge or other encumbrance on any assets (any such conflict, violation, default, right of termination, amendment, cancellation or acceleration, loss or creation, a "Violation") pursuant to: (A) any provision of the certificate of incorporation or by-laws of MCI or any Subsidiary of MCI or (B) except as would not have a Material Adverse Effect on MCI and, subject to obtaining or making the consents, approvals, orders, authorizations, registrations, declarations and filings referred to in paragraph (iii) below, any loan or credit agreement, note, mortgage, bond, indenture, lease, benefit plan or other agreement, obligation, instrument, permit, concession, franchise, license, judgment, order, decree, statute, law, ordinance, rule or regulation applicable to MCI or any Subsidiary of MCI or their respective properties or assets.

(iii) No consent, approval, order or authorization of, or registration, declaration or filing with, any supra-national, national, state, municipal or local government, any instrumentality, subdivision, court, administrative agency or commission or other authority thereof, or any quasi-governmental or private body exercising any regulatory, taxing, importing or other governmental or quasi-governmental authority, including the European Union (a "Governmental Entity"), is required by or with respect to MCI or any Subsidiary of MCI in connection with the execution and delivery of this Agreement by MCI or the consummation by MCI of the transactions contemplated hereby, except for those required under or in relation to (A) the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act") and Council Regulation (EEC) No. 4064/89 ("Regulation 4064/89"), (B) the Communications Act of 1934, as amended (the "Communications Act"), and any rules and regulations promulgated by the Federal Communications Commission ("FCC"), (C) state securities or "blue sky" laws, (D) the Securities Act, (E) the Securities Exchange Act of 1934, as amended (the "Exchange Act"), (F) the DGCL with respect to the filing and recordation of appropriate merger or other documents, (G) rules and regulations of any state or foreign public service commissions or similar state or foreign regulatory bodies, (H) Section 721 of the Defense Production Act of 1950, as amended, and the rules promulgated thereunder ("Exon-Florio") and the rules and regulations promulgated by the Department of Defense, (I) rules and

regulations of the Nasdaq National Market ("NASDAQ"), (J) the Fair Trading Act of 1973, (K) the Restrictive Trade Practices Act 1976, (L) antitrust or other competition laws of other jurisdictions, and (M) such consents, approvals, orders, authorizations, registrations, declarations and filings the failure of which to make or obtain would not have a Material Adverse Effect on MCI. Consents, approvals, orders, authorizations, registrations, declarations and filings required under or in relation to any of the foregoing clauses (A) through (L) are hereinafter referred to as "Required Consents."

(d) Reports and Financial Statements.

(i) MCI has filed all required reports, schedules, forms, statements and other documents required to be filed by it with the SEC since January 1, 1995 (collectively, including all exhibits thereto, the "MCI SEC Reports"). No Subsidiary of MCI is required to file any form, report or other document with the SEC. None of the MCI SEC Reports, as of their respective dates (and, if amended or superseded by a filing prior to the date of this Agreement or of the Closing Date, then on the date of such filing), contained or will contain any untrue statement of a material fact or omitted or will omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. Each of the financial statements (including the related notes) included in the MCI SEC Reports presents fairly, in all material respects, the consolidated financial position and consolidated results of operations and cash flows of MCI and its Subsidiaries as of the respective dates or for the respective periods set forth therein, all in conformity with United States generally accepted accounting principles ("U.S. GAAP") consistently applied during the periods involved except as otherwise noted therein, and subject, in the case of the unaudited interim financial statements, to normal and recurring year-end adjustments that have not been and are not expected to be material in amount. All of such MCI SEC Reports, as of their respective dates (and as of the date of any amendment to the respective MCI SEC Report), complied as to form in all material respects with the applicable requirements of the Securities Act and the Exchange Act and the rules and regulations promulgated thereunder.

(ii) Except as set forth in the MCI SEC Reports filed prior to the date of this Agreement, and except for liabilities and obligations incurred in the ordinary course of business consistent with past practice since December 31, 1995, neither MCI nor any of its Subsidiaries has any liabilities or obligations of any nature (whether accrued, absolute, contingent or otherwise) which, individually or in the aggregate, would have a Material Adverse Effect on MCI or would prevent or materially delay the performance of this Agreement by MCI.

(e) Information Supplied.

(i) None of the information supplied or to be supplied by MCI for inclusion or incorporation by reference in (A) the registration statement on Form F-4 to be filed with the SEC by BT in connection with the issuance of BT ADSs in the Merger (the "Form F-4") will, at the time the Form F-4 is filed with the SEC, at any time it is amended or supplemented or at the time it becomes effective under the Securities Act, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading and (B) the proxy statement/prospectus included in the Form F-4 related to the MCI Stockholders Meeting) (the "Proxy Statement/Prospectus") and, if applicable, the Schedule 13E-3 will, on the date it is first mailed to MCI stockholders or at the time of the MCI Stockholders Meeting, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The Proxy Statement/Prospectus will comply as to form in all material respects with the requirements of the Exchange Act and the Securities Act and the rules and regulations of the SEC thereunder.

(ii) The information supplied or to be supplied by MCI for inclusion in the Super Class 1 Shareholder Circular (comprising listing particulars under Part IV of the Financial Services Act 1986 of the United Kingdom, as amended (the "FSA")) (the "BT Disclosure Document") will, on the date the BT Disclosure Document is first mailed to shareholders of BT and at the time of the BT Shareholder Meeting, include all such information within the knowledge of each of the directors of MCI (or which it would be reasonable for them to obtain by making enquiries) as investors and their professional advisers reasonably require and expect to find, for the purpose of making an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of BT and of the rights attaching to the securities to which the BT Disclosure Document relates.

(iii) Notwithstanding the foregoing provisions of this Section 3.1(e), no representation or warranty is made by MCI with respect to statements made or incorporated by reference in the F-4, the Proxy Statement/Prospectus, the Schedule 13E-3 (if applicable) or the BT Disclosure Document based on information supplied by BT for inclusion or incorporation by reference therein.

(f) Compliance with Applicable Laws; Regulatory Matters. MCI and its Subsidiaries hold all permits, licenses, certificates, franchises, registrations, variances, exemptions, orders and approvals of all Governmental Entities which are material to the operation of the businesses of MCI and its Subsidiaries, taken as a whole (the

"MCI Permits"). MCI and its Subsidiaries are in compliance with the terms of the MCI Permits, except where the failure so to comply, individually or in the aggregate, would not have a Material Adverse Effect on MCI. Except as disclosed in the MCI SEC Reports filed prior to the date of this Agreement, the businesses of MCI and its Subsidiaries are not being and have not been conducted in violation of any law, ordinance, regulation, judgment, decree, injunction, rule or order of any Governmental Entity, except for violations which, individually or in the aggregate, would not have a Material Adverse Effect on MCI. As of the date of this Agreement, no investigation (other than with respect to Taxes) by any Governmental Entity with respect to MCI or any of its Subsidiaries is pending or, to the best knowledge of MCI, threatened, other than investigations which, individually or in the aggregate, would not have a Material Adverse Effect on MCI. Since December 31, 1994, MCI and each of its Subsidiaries required to make filings under all applicable laws regulating the telephone, mobile cellular, paging or other telecommunications business has filed with all applicable Governmental Entities (including the applicable public utilities commissions or the FCC, as the case may be) all material forms, statements, reports and documents (including exhibits, annexes and any amendments thereto) required to be filed by them, and each such filing complied with all applicable laws, rules and regulations, except for such noncompliance which would not, individually or in the aggregate, have a Material Adverse Effect on MCI or prevent or materially delay the performance of this Agreement by MCI.

(g) Litigation. Except as disclosed in the MCI SEC Reports filed prior to the date of this Agreement, there is no litigation, arbitration, claim, suit, action, investigation or proceeding pending or, to the knowledge of MCI, threatened, against or affecting MCI or any Subsidiary of MCI which, individually or in the aggregate, has had or would have a Material Adverse Effect on MCI, nor is there any judgment, award, decree, injunction, rule or order of any Governmental Entity or arbitrator outstanding against MCI or any Subsidiary of MCI which, individually or in the aggregate, has had or would have a Material Adverse Effect on MCI.

(h) Taxes. (i) MCI and each of its Subsidiaries have prepared in good faith and duly and timely filed (taking into account any extension of time within which to file) all material Tax Returns required to be filed by any of them and all such filed Tax Returns are complete and accurate in all material respects; (ii) MCI and each of its Subsidiaries have paid all Taxes that are shown as due on such filed Tax Returns or that MCI or any of its Subsidiaries is obligated to withhold from amounts owing to any employee, creditor or third party, except with respect to matters contested in good faith or for such amounts that, individually or in the aggregate, would not have a Material Adverse Effect on MCI; (iii) as of the date of this Agreement, there are no pending or, to the best knowledge of MCI, threatened in writing material audits, examinations, investigations or other proceedings in respect of Taxes or Tax matters relating to MCI or any of its Subsidiaries; (iv) there are not, to the best knowledge of MCI, any unresolved questions or claims concerning its or any

of its Subsidiaries' Tax liability that, individually or in the aggregate, would have a Material Adverse Effect on MCI and there are no deficiencies or claims for any Taxes that have been proposed, asserted or assessed against MCI or any of its Subsidiaries which, if such deficiencies or claims were finally resolved against MCI or any of its Subsidiaries would, individually or in the aggregate, have a Material Adverse Effect on MCI; (v) neither MCI nor any of its Subsidiaries has any liability with respect to Taxes in excess of the amounts accrued in respect thereof that are reflected in the financial statements included in the MCI SEC Reports, except such excess liabilities as would not, individually or in the aggregate, have a Material Adverse Effect on MCI; (vi) there are no material Liens for Taxes upon the assets of MCI or any of its Subsidiaries, other than Liens for current Taxes not yet due and payable and Liens for Taxes that are being contested in good faith by appropriate proceedings; (vii) neither MCI nor any of its Subsidiaries has agreed to or is required to make any adjustment under Section 481(a) of the Code; and (viii) neither MCI nor any of its Subsidiaries has made an election under Section 341(f) of the Code.

(i) Subsidiaries and Equity Interests. Exhibit 21 to MCI's Annual Report on Form 10-K for the fiscal year ended December 31, 1995 includes all the Subsidiaries of MCI as of the date of this Agreement required to be included on such exhibit by the rules and regulations of the SEC, were it to be filed as of the date of this Agreement. Unless otherwise described therein, MCI owns, directly or indirectly, beneficially and of record 100% of the issued and outstanding voting securities of each such Subsidiary (other than directors' qualifying shares, if any). Section 3.1(i) of the MCI Disclosure Schedule lists each corporation, partnership, limited liability company or similar entity with respect to which, as of the date of this Agreement, MCI or any Subsidiary of MCI owns more than 5% but less than a majority of the voting equity or similar voting interest or any interest convertible into, or exchangeable or exercisable for, more than 5% but less than a majority of the voting equity or similar voting interest and which interest is carried on MCI's most recent financial statements (or if not held as of the date thereof, would be carried on MCI's financial statements if prepared as of the date hereof) at a value in excess of \$10,000,000 (collectively, the "MCI Equity Interests"). There are no plans to restructure in any material respect any of the MCI Equity Interests. All of the shares of capital stock of each of the Subsidiaries and all the MCI Equity Interests held by MCI and each Subsidiary of MCI are fully paid and nonassessable and are owned by MCI or such Subsidiary free and clear of any security interest, pledge, option, right of first refusal, limitation on MCI's or such Subsidiary's voting rights, charge, claim, lien or other encumbrance of any nature whatsoever (collectively, "Liens"). There are no material outstanding contractual obligations of MCI or any of its Subsidiaries to provide funds to, or make any investment (in the form of a loan, capital contribution or otherwise) in, any Subsidiary of MCI, any entity in which MCI or any Subsidiary of MCI owns an MCI Equity Interest, or any other Person, except such obligations as would not require any investment or provision of funds or assets in an

amount or having a fair market value in excess of \$10,000,000 for any such investment or \$50,000,000 in the aggregate for all such investments.

(j) Absence of Certain Changes or Events.

(i) Except as disclosed in the MCI SEC Reports filed prior to the date of this Agreement: (A) since December 31, 1995, MCI and its Subsidiaries have conducted their respective businesses in the ordinary course consistent with their past practices and have not incurred any material liability, except in the ordinary course of their respective businesses consistent with their past practices; (B) since December 31, 1995 to the date of this Agreement, there has not been any change in or effect on, or any event or circumstance involving a prospective change in or effect on, the business, financial condition or results of operations of MCI or any of its Subsidiaries, that has had, or would have, a Material Adverse Effect on MCI; and (C) since December 31, 1995, there has not been any change in or effect on, or any event or circumstance involving a prospective change in or effect on, the business, financial condition or results of operations of MCI or any of its Subsidiaries that has had, or is reasonably likely to have, a material adverse effect on the business, operations, assets, liabilities (including, without limitation, contingent liabilities), financial condition or results of operations of MCI and its Subsidiaries, taken as a whole, other than as a result of (1) changes after the date of this Agreement in general economic conditions or the securities markets, and (2) legal or regulatory changes effective after the date of this Agreement affecting the telecommunications industry generally.

(ii) As of the date of this Agreement, no plans or proposals are under consideration by MCI to announce or implement any restructuring or other similar actions by MCI or any of its Subsidiaries which would be reasonably likely to result in material charges or write-offs to the consolidated financial statements of MCI or material reductions in the anticipated consolidated revenues or operating income of MCI.

(k) Section 203 of the DGCL Not Applicable. The Board of Directors of MCI has approved the Merger and this Agreement, and such approval is sufficient to render inapplicable to the Merger and this Agreement and the transactions contemplated by this Agreement the provisions of Section 203 of the DGCL. To the best knowledge of MCI, no other state takeover statute or similar statute or regulation applies or purports to apply to the Merger, this Agreement or any of the transactions contemplated by this Agreement.

(l) Vote Required. The affirmative vote of the holders of a majority of the outstanding shares of MCI Common Stock and the affirmative vote of the holders of a majority of the outstanding shares of MCI Class A Common Stock, each voting as a

separate class (the "Required MCI Votes"), are the only votes of the holders of any class or series of MCI capital stock necessary to approve this Agreement and the transactions contemplated hereby (assuming for purposes of this representation the accuracy of the representations contained in Section 3.2(o), without giving effect to the knowledge qualification thereto).

(m) MCI Rights Agreement. The MCI Rights Agreement has been amended so as to provide that neither BT nor Merger Sub will become an "Acquiring Person" and that no "Stock Acquisition Date" or "Distribution Date" (as such terms are defined in the MCI Rights Agreement) will occur as a result of the approval, execution or delivery of this Agreement or the consummation of the Merger.

(n) Certain Agreements.

(i) All contracts listed or which would be required to be listed as an exhibit to MCI's Annual Report on Form 10-K under the rules and regulations of the SEC relating to the business of MCI and its Subsidiaries and any contracts that would be required to be so listed but for the exception with respect to listing contracts made in the ordinary course of business (the "MCI Material Contracts") are valid and in full force and effect except to the extent they have previously expired in accordance with their terms, and neither MCI nor any of its Subsidiaries has violated any provision of, or committed or failed to perform any act which, with or without notice, lapse of time, or both, would constitute a default under the provisions of, any such MCI Material Contract, except for defaults which, individually or in the aggregate, would not have a Material Adverse Effect on MCI. To the best knowledge of MCI, no counterparty to any such MCI Material Contract has violated any provision of, or committed or failed to perform any act which, with or without notice, lapse of time, or both, would constitute a default or other breach under the provisions of, such MCI Material Contract, except for defaults or breaches which, individually or in the aggregate, would not have a Material Adverse Effect on MCI.

(ii) Except for existing agreements between MCI and BT, as of the date of this Agreement neither MCI nor any of its Subsidiaries nor any of their respective affiliates has entered into any agreement or arrangement limiting or otherwise restricting MCI or any of its Subsidiaries or any of their respective affiliates or successors from engaging or competing in any line of business or in any geographic area.

(o) Employee Benefit Plans: Labor Matters.

(i) With respect to each employee benefit plan, program, arrangement and contract (including, without limitation, any "employee benefit plan," as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") and any bonus, deferred compensation, stock bonus, stock purchase, restricted stock, stock option, employment, termination, change in control and severance plan, program, arrangement and contract), to which MCI or any of its Subsidiaries is a party, which is maintained or contributed to by MCI or any of its Subsidiaries, or with respect to which MCI or any of its Subsidiaries could incur material liability under Section 4069, 4201 or 4212(c) of ERISA (the "MCI Benefit Plans"), MCI has made available to BT a true and complete copy of (A) such MCI Benefit Plan, (B) the most recent annual report (Form 5500) filed with the Internal Revenue Service (the "IRS"), (C) each trust or other funding arrangement relating to such MCI Benefit Plan, (D) the most recent summary plan description related to each MCI Benefit Plan for which a summary plan description is required, (E) the most recent actuarial report (if applicable) relating to an MCI Benefit Plan and (F) the most recent determination letter, if any, issued by the IRS with respect to any MCI Benefit Plan qualified under Section 401(a) of the Code.

(ii) Each of the MCI Benefit Plans that is an "employee pension benefit plan" within the meaning of Section 3(2) of ERISA and that is intended to be qualified under Section 401(a) of the Code has received a favorable determination letter from the IRS, and MCI is not aware of any circumstances likely to result in the revocation of any such favorable determination letter that would have a Material Adverse Effect on MCI.

(iii) With respect to the MCI Benefit Plans, no event has occurred and, to the knowledge of MCI, there exists no condition or set of circumstances, in connection with which MCI or any of its Subsidiaries could be subject to any liability under the terms of such MCI Benefit Plans, ERISA, the Code or any other applicable law which, individually or in the aggregate, would have a Material Adverse Effect on MCI.

(iv) MCI has made available to BT all collective bargaining or other labor union contracts to which MCI or any of its Subsidiaries is a party applicable to persons employed by MCI or any of its Subsidiaries and no collective bargaining agreement is being negotiated by MCI or any of its Subsidiaries. There is no pending or threatened in writing labor dispute, strike or work stoppage against MCI or any of its Subsidiaries which may interfere with the respective business activities of MCI or any of its Subsidiaries, except where such dispute, strike or work stoppage would not have a Material

Adverse Effect on MCI. To the knowledge of MCI, neither MCI nor any of its Subsidiaries, nor their respective representatives or employees, has committed any unfair labor practices in connection with the operation of the respective businesses of MCI or any of its Subsidiaries, and there is no pending or threatened in writing charge or complaint against MCI or any of its Subsidiaries by the National Labor Relations Board or any comparable state agency, except where such unfair labor practice, charge or complaint would not have a Material Adverse Effect on MCI.

(p) **Brokers or Finders.** No agent, broker, investment banker, financial advisor or other firm or Person is or will be entitled to any broker's or finder's fee or any other similar commission or fee in connection with any of the transactions contemplated by this Agreement, except Lazard Frères & Co. LLC, whose fees and expenses will be paid by MCI in accordance with MCI's agreement with such firm, based upon arrangements made by or on behalf of MCI.

(q) **Opinion of Financial Advisor.** MCI has received the opinion of Lazard Frères & Co. LLC, dated the date of this Agreement, to the effect that, as of such date, the Merger Consideration is fair to the holders of MCI Common Stock (other than BT), a copy of which opinion has been made available to BT.

(r) **Intellectual Property Rights.**

(i) Neither MCI nor any of its Subsidiaries (a) has licensed Intellectual Property Rights owned by them (or licensed to them by a third party) to any Person in a manner that would have a Material Adverse Effect on MCI; or (b) is in breach of any agreements related to licenses from MCI or its Subsidiaries of Intellectual Property Rights owned by them (or licensed to them by a third party) which breach would have a Material Adverse Effect on MCI, and the transactions contemplated by this Agreement will not constitute such a breach or otherwise reduce or impair, in any material respect, the rights of MCI and its Subsidiaries under such license agreements.

(ii) The terms of licenses of Intellectual Property Rights by third parties to MCI and its Subsidiaries are sufficient to allow MCI and its Subsidiaries to conduct, and to continue to conduct, their businesses in all material respects as currently conducted. Neither MCI nor any of its Subsidiaries is in breach of any of the agreements relating to such licenses which breach would have a Material Adverse Effect on MCI, and the transactions contemplated by this Agreement will not constitute such a breach or otherwise impair, in any material respect, the rights of MCI and its Subsidiaries under such license agreements. For purposes of this clause (ii), joint ownership of Intellectual Property Rights between MCI and its

Subsidiaries, on the one hand, and any other Person, on the other hand, shall be deemed to be a license from such Person to MCI and its Subsidiaries.

(iii) Neither MCI nor any of its Subsidiaries has received any written notice from any Person regarding any actual or potential infringements by MCI or any of its Subsidiaries of any Intellectual Property Rights of any other Person which infringements, individually or in the aggregate, would if proven have a Material Adverse Effect on MCI. For purposes of this paragraph (iii), a challenge by a Person to the ownership of Intellectual Property Rights of MCI and its Subsidiaries shall be deemed to be an allegation by the Person so challenging of actual or potential infringement by MCI and its Subsidiaries.

(iv) No claims are pending or, to the best knowledge of MCI, threatened by any Person with respect to the ownership, validity or enforceability of any Intellectual Property Rights or challenging or questioning the right of MCI or any of its Subsidiaries to use any Intellectual Property Rights, except as would not, individually or in the aggregate, have a Material Adverse Effect on MCI.

(v) Neither MCI nor any of its Subsidiaries has, as of the date of this Agreement, any outstanding claim against it of an infringement, the loss of which would have a Material Adverse Effect on MCI; and neither MCI nor any of its Subsidiaries has made any still outstanding claim against a Person of a violation or infringement, the loss of which would have a Material Adverse Effect on MCI.

(vi) The ownership of Intellectual Property Rights and the right to secure such rights (including the right to apply for patents) currently enjoyed by MCI and its Subsidiaries will not be affected by the transactions contemplated by this Agreement in any manner that would have a Material Adverse Effect on MCI.

(vii) "Intellectual Property Rights" means: trademarks, trade names, and service marks whether registered or not and applications to register them; patents (including petty patents) and applications therefor; industrial models (including U.S. design patents and registered designs) and applications therefor; copyrights; unregistered design rights (in the United Kingdom and like countries); *sui generis* rights in databases, semiconductor topographies and mask works; and rights in confidential information and trade secrets.

3.2. Representations and Warranties of BT. Except as set forth in the BT Disclosure Schedule delivered by BT to MCI at or prior to the execution of this Agreement (the "BT Disclosure Schedule") (each section of which qualifies the correspondingly

numbered representation and warranty or covenant to the extent specified therein), BT represents and warrants to MCI as follows:

(a) Organization, Standing and Power. Each of BT and each of its Subsidiaries is a corporation duly organized and validly existing under the laws of its jurisdiction of incorporation or organization and each of its Subsidiaries incorporated outside the United Kingdom is in good standing (with respect to jurisdictions which recognize the concept of good standing) under the laws of its jurisdiction of incorporation or organization, has all requisite power and authority to own, lease and operate its properties and to carry on its business as now being conducted and is duly qualified and in good standing (with respect to jurisdictions which recognize the concept of good standing) to do business in each jurisdiction in which the nature of its business or the ownership or leasing of its properties makes such qualification necessary other than in such jurisdictions where the failure so to qualify would not, either individually or in the aggregate, have a Material Adverse Effect on BT. The copies of the memorandum and articles of association of BT which were previously furnished to MCI are true, complete and correct copies of such documents as in effect on the date of this Agreement.

(b) Capital Structure.

(i) As of September 30, 1996, the authorized share capital of BT consists of (A) 10,500,000,000 BT Ordinary Shares, of which 6,347,488,575 shares have been issued and (B) one Special Rights Redeemable Preference Share of £1 (the "Special Share"), which has been issued and is held by Her Majesty's Government of the United Kingdom ("HM Government"). Since September 30, 1996 to the date of this Agreement, there have been no issuances of shares of BT or any other securities of BT other than issuances of shares pursuant to options or rights outstanding as of such date to subscribe or purchase BT Ordinary Shares. All issued shares of BT are duly authorized, validly issued and fully paid, and no class of share is entitled to preemptive rights, save as provided by Section 89 Companies Act 1985 of the United Kingdom (the "Companies Act"). There were outstanding as of September 30, 1996 no options, warrants or other rights to acquire share capital from BT other than options representing, in the aggregate, the right to subscribe or purchase 277,400,188 BT Ordinary Shares. No options or warrants or other rights to acquire share capital from BT have been issued or granted since September 30, 1996 to the date of this Agreement.

(ii) As of the date of this Agreement, no bonds, debentures, notes or other indebtedness of BT having the right to vote on any matters on which shareholders may vote ("BT Voting Debt") are issued or outstanding.